



Budget and Water Rates Adjustment Community Townhall Meeting March 24, 2022



March 24, 2022

Budget - Overview



- Sustainable Morgan Hill
- Fiscal Sustainability
- Funding Priorities for Local Government
- Budget Process
- Budget Update
- Updated General Fund Forecast

Sustainable Morgan Hill



City Council Ongoing Priorities

- Enhancing Public Safety
- Protecting the Environment and Preserving Open Space and Agricultural Land
- Maintaining and Enhancing Infrastructure
- Supporting our Youth, Seniors, and Entire Community
- Fostering a Positive Organizational Culture
- Preserving and Cultivating Public Trust
- Preserving our Community History
- Enhancing Diversity and Inclusiveness
- Advancing Regional Initiatives

Sustainable Morgan Hill (Cont'd)



2022-2023 Strategic Priorities

- **Fiscal Sustainability**
- Affordable Housing and Homelessness
- Community Outreach, Engagement, and Messaging
- Economic Development
- Transportation

Key Budget Dates



- City Council Goal Setting – January 28 and 29 **DONE!**
- Budget Community Townhall – March 24 **TODAY!**
- Parks and Recreation Commission Meeting – Review of CIP – April 19
- Planning Commission Meeting – Review of CIP – conformance with General Plan – April 26
- Recommended Budget Released – April 29
- Recommended Budget Presented to City Council – May 4
- Budget Community Townhall – May 18
- City Council Budget Workshop – May 25
- City Council Budget Public Hearing – June 15

Local Government Priorities



City

- Municipal Services: police, fire, animal control, parks, public works, water, wastewater, solid waste, community services and general governance.
- Regulations: Land use, building, codes, etc.

County

- Welfare & Social Services
- Courts and Criminal Justice System
- Municipal Services & Regulations for the unincorporated areas

Definition: Discretionary Revenues



Resources that are not legally restricted for certain uses and can be allocated based on City Council priorities. This generally includes tax revenue such as property, sales, hotel, and business license, and the General Fund's unrestricted fund balance.

This is revenue that the City Council can allocate as it wishes to fund local priorities.

Funding for Municipal Services



Primary Funding Sources:

- Police – City General Fund (Taxes)
- Fire – City General Fund (Taxes)
- Pavement Rehab – Statewide Gas Tax, Regional Sales Tax, City General Fund (Taxes)
- Park & Street Maintenance – Statewide Gas Tax, City General Fund (Taxes)
- Water/Wastewater – (Fees)
- Solid Waste – Franchise (Fees)

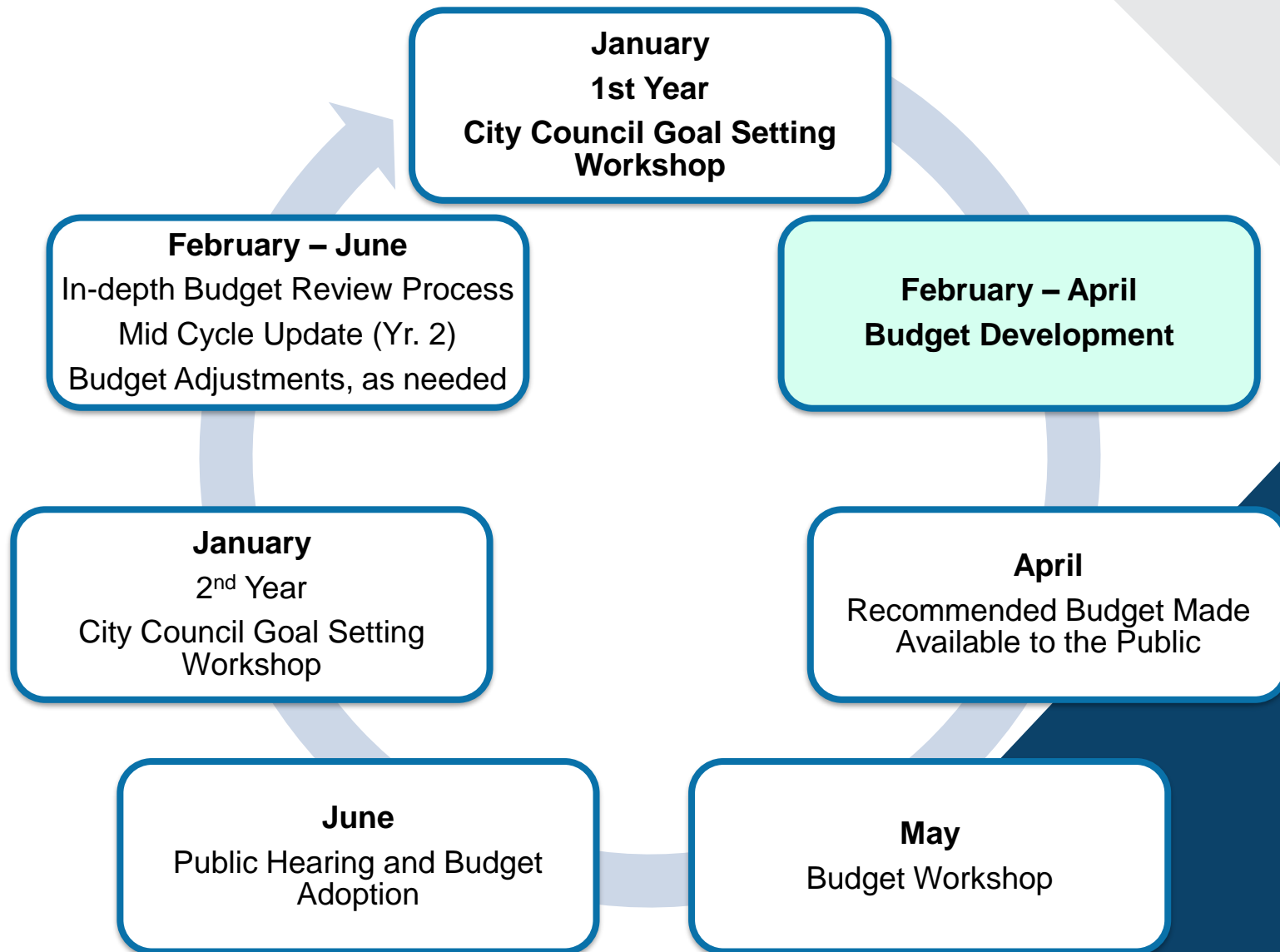
Funding for Municipal Services (cont'd)



Other Services Funded from the General Fund

- Environmental Services
- Recreation – Non-Cost Recovery (Senior Center and Teen Center)
- Development Services – Non-Cost Recovery (Public Counter/General Information Services, Strategic Initiative and Special Projects, and subsidized services)
- Economic Development
- Community Promotions/Partner Organizations

2 Year Budget Process



General Fund Budget – Big Picture



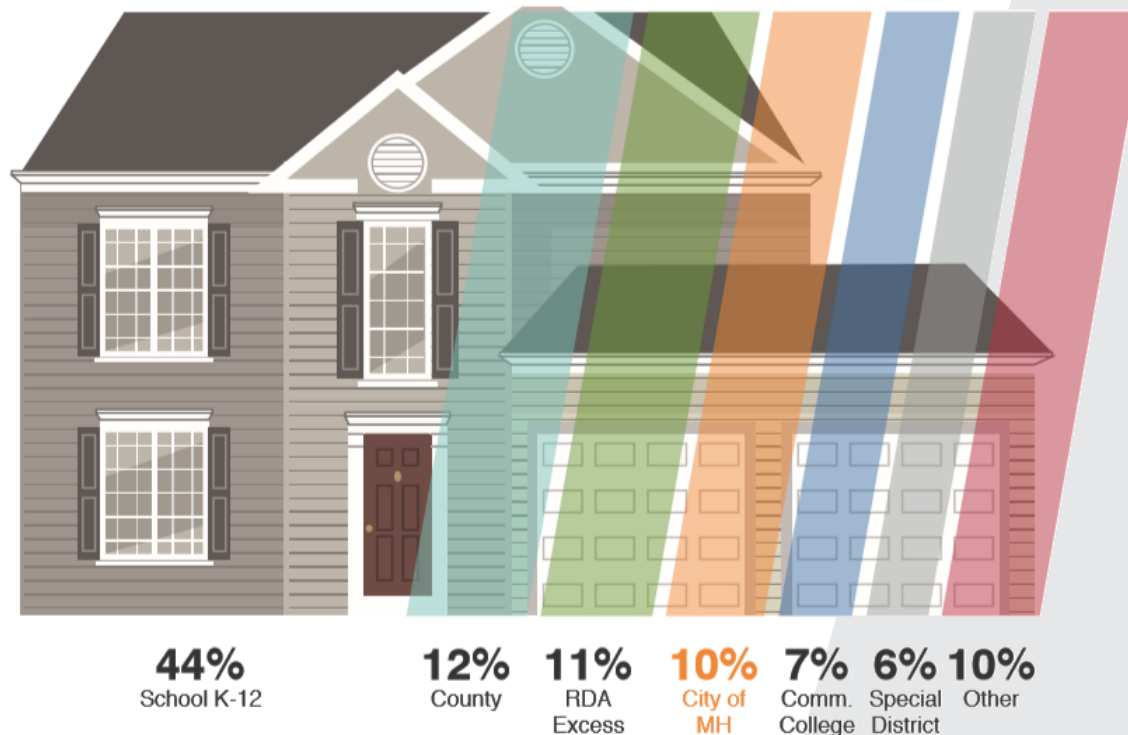
- Tax revenue increasing
- Recreation revenue gradually restoring to pre-COVID levels
- Expenses increasing due to inflation and contractual increases
- Proposing to increase public safety services
- Continued conservative spending

General Fund – Property Tax

FY18	FY19	FY20	FY21	FY22	FY23
\$11.4	\$12.8	\$14.5	\$16.0	\$16.6	\$17.2

(\$ million)

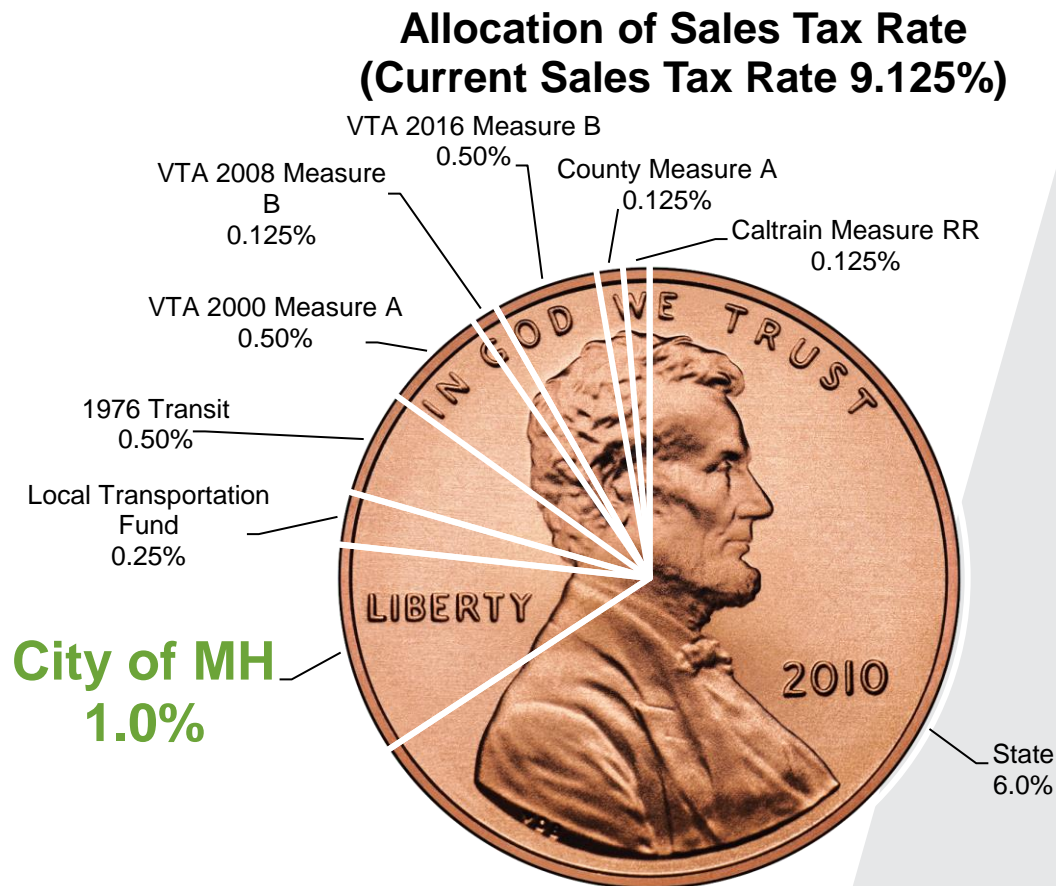
Morgan Hill Property Tax 1% Distribution



General Fund – Sales Tax

FY18	FY19	FY20	FY21	FY22	FY23
\$10.3	\$10.5	\$9.7	\$10.9	\$12.1	\$12.4

(\$ million)



General Fund – Recreation Services

FY18	FY19	FY20	FY21	FY22	FY23
\$7.0	\$7.3	\$5.6	\$3.2	\$4.8	\$6.1

(\$ million)

Recreation

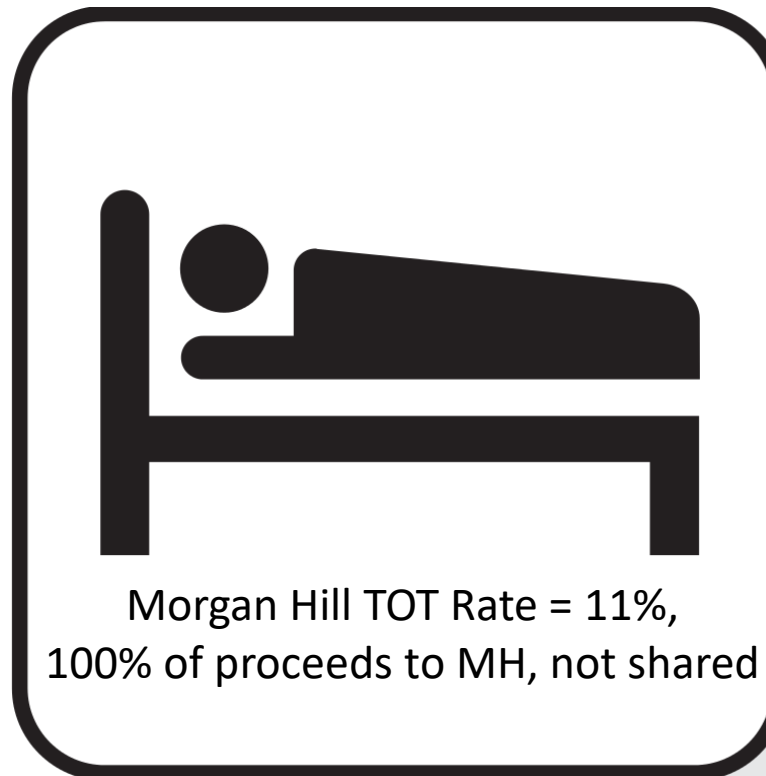
- Facility Rental Fees
- Recreation Membership Fees
- Classes



General Fund – Transient Occupancy Tax

FY18	FY19	FY20	FY21	FY22	FY23
\$2.7	\$2.9	\$2.3	\$1.3	\$2.2	\$2.5

(\$ million)



COVID-19 FISCAL IMPACTS



Revenue Loss – Current Forecast

Revenue Type (Amount in Millions)	Actual FY 19-20	Actual FY 20-21	Estimated FY 21-22	Forecast FY 22-23	Total
Property Tax	\$ (0.1)	\$ -	\$ -		\$ (0.1)
Sales tax	(0.6)	-	-		(0.6)
Recreation	(2.0)	(4.6)	(3.4)	(2.4)	(12.4)
Hotel Tax (TOT)	(0.8)	(1.8)	(1.3)	(1.0)	(4.9)
Development Services	(0.9)	(0.9)	(0.5)		(2.3)
Total	\$ (4.4)	\$ (7.3)	\$ (5.2)	\$ (3.4)	\$ (20.3)

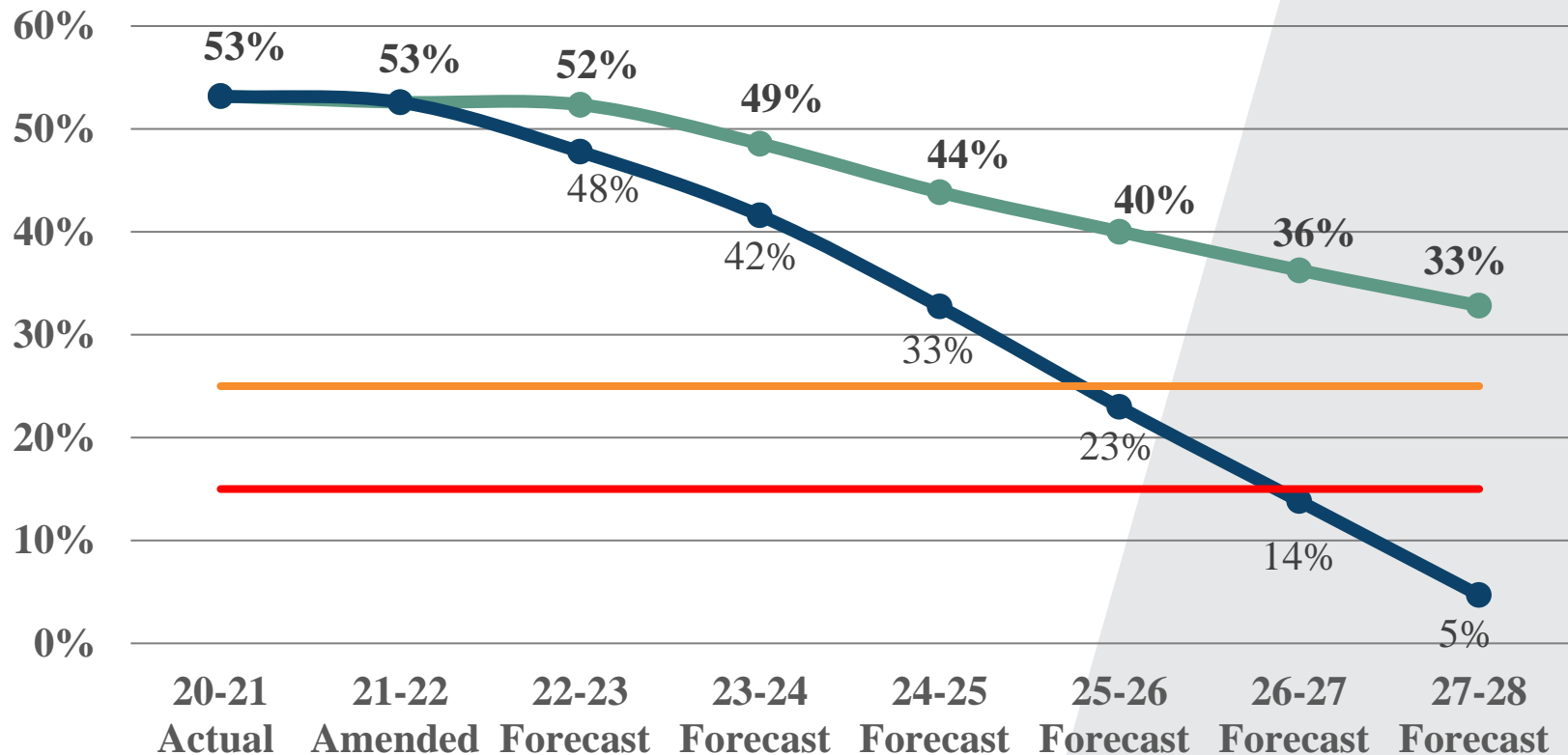
Unfunded General Fund Needs



Total Annual Unfunded General Fund Needs = **\$4.6M**

- Fire \$2.3M
- Police \$1.3M
- Operational loss due to RDCS Suspension \$1.0M
 - **Park Maintenance Funding**
Must be replaced by General Fund in near future.
 - **Storm Drain System Repairs**
Must be replaced by General Fund in near future unless alternative found.
 - **Pedestrian Safety and Infrastructure Repair/Replacement Funding**
Programs will eventually go away.
 - **Agricultural and Open Space Preservation**
Programs have been halted due to exhausting funding.

Updated General Fund Forecast



— GF Six Year Forecast March 24, 2022

— GF Six Year Forecast with Unfunded Needs

— Fund Balance Minimum Level 15% of Revenues

— Fund Balance Goal 25% of Revenues

DRAFT Capital Improvement Program



(\$ in Million)

Project Categories	FY23	FY24	FY25	FY26	FY27	FY28	Totals
Parks & Recreation	3.0	2.2	6.0	1.5	5.4	10.1	28.1
Public Facilities	9.2	-	1.6	-	-	-	10.8
Storm Drainage	2.4	1.8	2.5	1.9	1.3	1.1	11.0
Streets & Roads	11.0	8.0	6.5	6.0	6.0	6.0	43.7
Wastewater	30.5	15.3	14.1	10.7	2.2	2.4	75.2
Water	7.5	13.8	11.9	6.6	5.3	3.8	48.8
Totals	63.6	41.1	42.6	26.7	20.2	23.4	217.6

DRAFT Capital Improvement Program (cont'd)



- Wastewater Treatment Plant
- 3rd Fire Station
- Street Pavement Rehabilitation
- Llagas Flood Control

Enterprise Funds Update



- Current year wastewater operations revenue is tracking slightly higher than budget with no major changes in the upcoming budget
- Current year water sales revenue is below budget due to drought measures
- Water rate study – proposed rates adjustment

Water Rates Adjustment - Overview



- Background
- Water System Master Plan
- Proposed Water Rates Adjustment
- Next Steps

Background



- 2015 Rate Study
 - Last rate adjustment January 2020
- 2021 Water System Master Plan
 - \$108 million in Total Improvement Costs
 - \$59 million to be paid by future users (impact fee)
 - \$49 million to be paid by existing users
- 2022 Water Rate Study

Water System Master Plan



- Impacts from WSMP
 - Need for resiliency for existing users
 - New Wells for resiliency
 - Replacement program for pipes systems
 - Renovation and repair to aging reservoirs (storage tanks)
- New users will pay their share for growth through impact fees

Operational Cost Impacts



- No significant staffing increases
- Significant utility cost increases
- High inflationary costs for supplies, chemicals, and contract repairs
- Increased groundwater charges from Valley Water

Proposed Annual Rate Adjustment

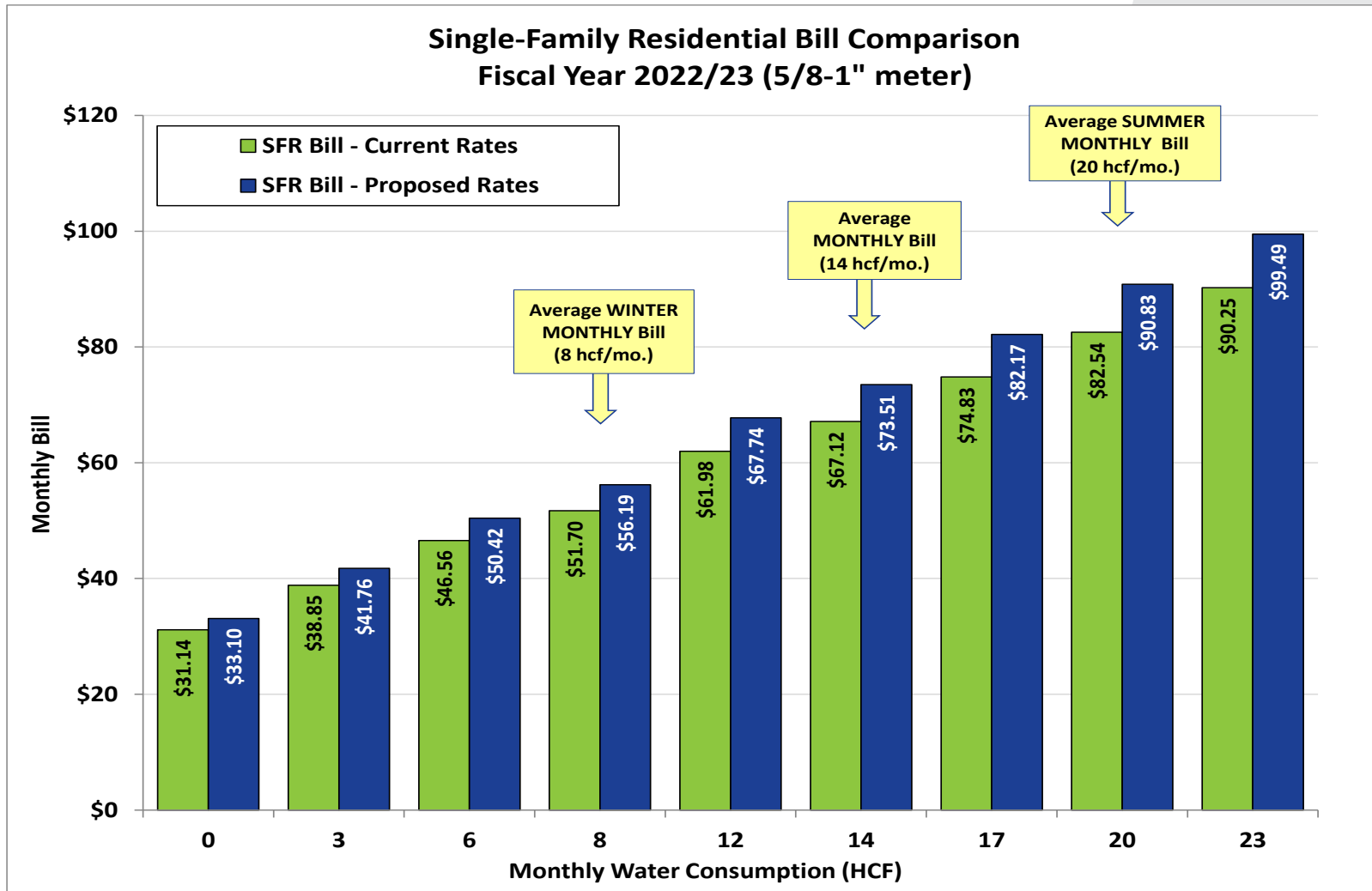


Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	5-Year Rate Adoption Period				
	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
Sources of Water Funds						
Rate Revenue Under Prevailing Rates	\$ 15,179,148	\$ 15,497,910	\$ 15,823,366	\$ 16,155,656	\$ 16,494,925	\$ 16,841,319
Non-Rate Revenues	1,098,954	1,106,147	1,113,492	1,120,991	1,128,647	1,136,465
Interest Earnings	180,121	176,388	164,908	110,214	94,864	79,547
Total Sources of Funds	\$ 16,458,222	\$ 16,780,445	\$ 17,101,766	\$ 17,386,862	\$ 17,718,436	\$ 18,057,331
Uses of Water Funds						
Operating Expenses	\$ 11,785,202	\$ 13,027,679	\$ 13,665,520	\$ 14,337,001	\$ 15,043,999	\$ 15,788,501
Rate-Funded Capital Expenses	-	890,787	6,412,621	7,432,357	8,616,828	9,023,266
Total Use of Funds	\$ 11,785,202	\$ 13,918,466	\$ 20,078,141	\$ 21,769,358	\$ 23,660,827	\$ 24,811,767
Surplus (Deficiency) before Rate Increase	\$ 4,673,020	\$ 2,861,978	\$ (2,976,375)	\$ (4,382,496)	\$ (5,942,391)	\$ (6,754,436)
Additional Revenue from Rate Increases	-	1,394,812	2,976,375	4,382,496	5,942,391	6,754,436
Surplus (Deficiency) after Rate Increase	\$ 4,673,020	\$ 4,256,790	\$ -	\$ -	\$ -	\$ -
Projected Annual Rate Increase¹	0.00%	9.00%	9.00%	7.00%	7.00%	3.00%
Net Revenue Requirement²	\$ 10,506,128	\$ 12,635,931	\$ 18,799,741	\$ 20,538,153	\$ 22,437,316	\$ 23,595,754

1. Annual % "rate increase" is for the total rate revenue; individual rates will vary from this %.

2. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from water rates.

Bill Comparison



Bill Comparison (cont'd)



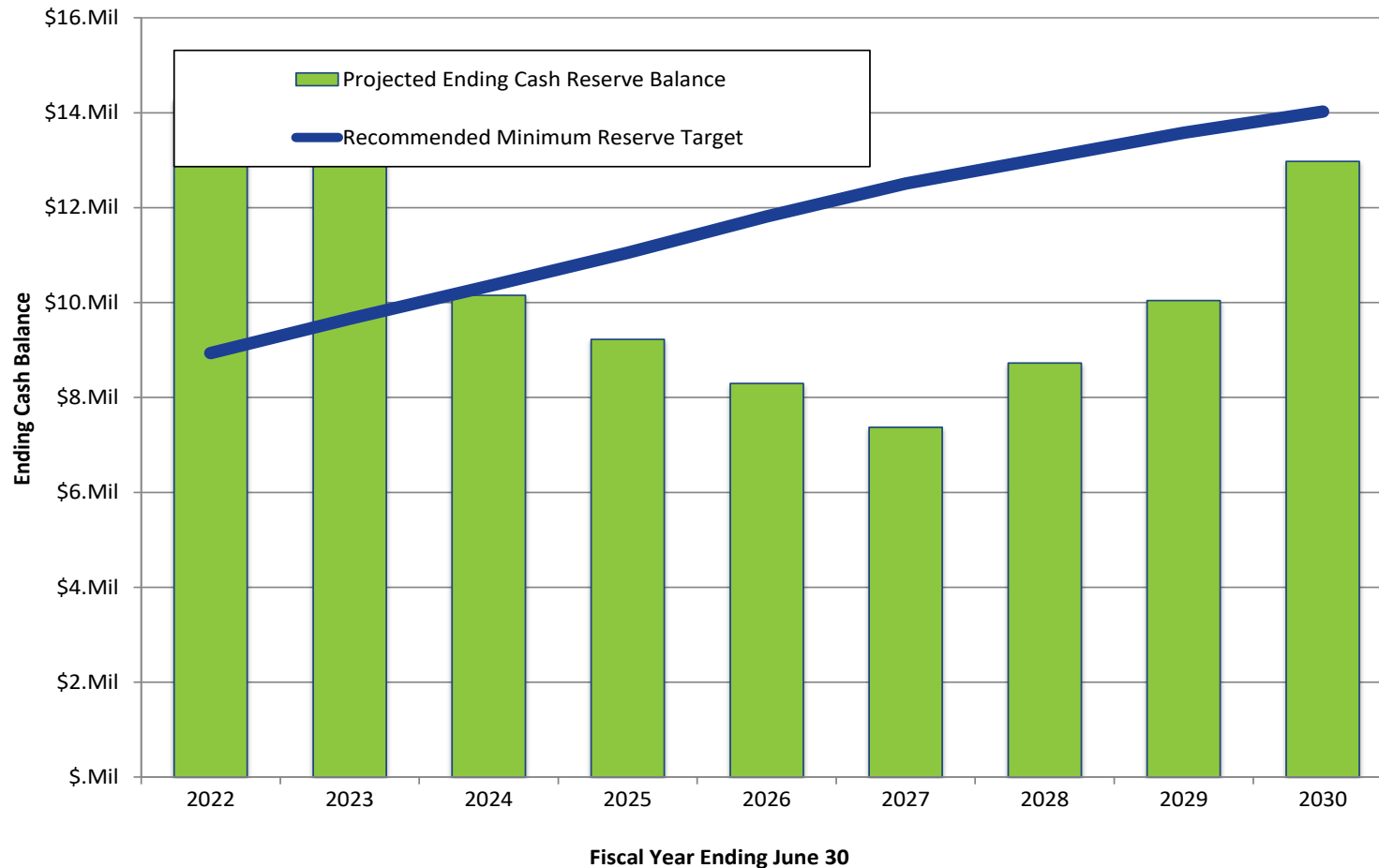
Average Single Family Residential Water Consumption of 14 HCF					
Current Rates	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
\$67.12	\$73.51	\$80.13	\$85.74	\$91.74	\$94.49
N/A	9%	9%	7%	7%	3%

City	Current Rates
Gilroy (Zone 3)*	\$69.34
San Jose (Evergreen)	\$112.23
Santa Clara City	\$113.47
Milpitas	\$135.77

*Currently undergoing rate study

Cash Balances and Reserve

**Ending Cash Balances vs.
Recommended Reserve Targets**



Revenue Stabilization Rate



- Intended to offset revenue loss
- Based on monthly volumetric consumption (3 years average consumption)
- Starting at 10%, with 5% increment, up to 30%

Revenue Stabilization Rate (cont'd)



Additional cost per water unit (hcf)

Reduced By	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
10%	\$0.32	\$0.35	\$0.45	\$0.49	\$0.67
15%	\$0.51	\$0.56	\$0.67	\$0.72	\$0.91
20%	\$0.72	\$0.78	\$0.91	\$0.98	\$1.19
25%	\$0.96	\$1.05	\$1.21	\$1.30	\$1.53
30%	\$1.23	\$1.34	\$1.52	\$1.63	\$1.89

Revenue Stabilization Rate (cont'd)



	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
<i>Proposed Rates</i>	\$2.89	\$3.15	\$3.37	\$3.60	\$3.71
10%	\$3.21	\$3.50	\$3.82	\$4.09	\$4.38
15%	\$3.40	\$3.71	\$4.04	\$4.32	\$4.62
20%	\$3.61	\$3.93	\$4.28	\$4.58	\$4.90
25%	\$3.85	\$4.20	\$4.58	\$4.90	\$5.24
30%	\$4.12	\$4.49	\$4.89	\$5.23	\$5.60

Bill Comparison with Revenue Stabilization Rate



	Average Single Family Residential Water Consumption of 14 HCF					
	Current Rates	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Current Proposed	\$67.12	\$73.51	\$80.13	\$85.74	\$91.74	\$94.49
10%	\$67.12	\$78.04	\$85.08	\$92.08	\$98.56	\$103.86
15%	\$67.12	\$80.70	\$88.02	\$95.16	\$101.78	\$107.22
20%	\$67.12	\$83.64	\$91.10	\$98.52	\$105.42	\$111.14
25%	\$67.12	\$87.00	\$94.88	\$102.72	\$109.90	\$115.90
30%	\$67.12	\$90.78	\$98.94	\$107.06	\$114.52	\$120.94

City	Current Rates
Gilroy (Zone 3)*	\$69.34
San Jose (Evergreen)	\$112.23
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Next Steps



- **Council Meeting – April 6, 2022**
 - Adopt Resolution, Commence Proposition 218 Notices, and Set Public Hearing Date
- **Public Hearing – June 1, 2022**
 - Tabulate Final Proposition 218 protest letter count
- **If no majority protest received, approve the recommended rates by adopting resolution**
- **New Rates effective Water Consumption beginning July 1, 2022 (Billing Date August 16, 2022)**

Questions and Answers

